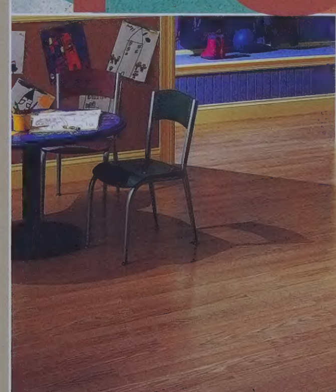
vision



2002 Annual Report

DOMCO TARKETT INC.

profile

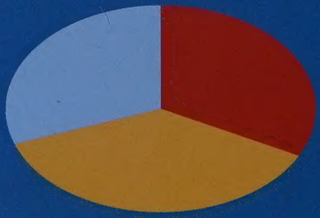
Founded over 130 years ago, Domco Tarkett owes its growth and its innovativeness to the professionalism and diversified skills of its team of 2,300 employees. The Corporation is positioned as the second largest manufacturer of resilient and hardwood flooring in North America, with ten manufacturing units and a distribution network extending across the United States and Canada. Its comprehensive product lines are renowned in the industry for their high quality, diversity and innovation.

Domco Tarkett's core businesses are split into three divisions:

- **Domco Tarkett Commercial** (Houston, Texas) manufactures and distributes resilient tiles under the Azrock®, Tarkett® and Nafco® brands. The division is also responsible for the Tarkett-Sommer® line of specialty products;
- **Domco Tarkett Residential** (Farnham, Québec) produces the Domco® and Tarkett® lines of resilient sheet flooring and also distributes laminate flooring products. The division's U.S. Sales and Marketing headquarters are based in Whitehall, Pennsylvania;
- **Harris-Tarkett, the Hardwood Division** (Johnson City, Tennessee), manufactures a range of prefinished and unfinished solid and engineered plank and strip products.

The Corporation is headquartered in Farnham, Québec.

Breakdown of sales



(in millions of dollars)

Residential resilient floor	217.6
Commercial resilient floor	246.7
Hardwood	202.9

Financial Highlights

(in thousands of dollars, except per share amounts)

Years ended December 31

	2002	2001	2000	1999	1998
	$	$	$	$	$
Revenues	**667,218**	649,621	657,297	491,452	350,798
Gross margin	**192,810**	193,091	201,269	156,641	122,592
Earnings before income taxes	**21,437**	9,145	8,981	21,204	18,721
Net earnings	**15,950**	8,160	8,077	18,628	15,365
Adjusted *		12,995	12,717	23,092	19,023
Working capital	**98,153**	145,181	160,087	157,142	87,736
Total assets	**472,387**	597,796	594,759	573,121	327,537
Total net debt	**63,481**	85,793	117,882	158,808	54,868
Shareholders' equity	**257,908**	319,107	299,644	287,477	216,210
Basic earnings per share	**0.63**	0.32	0.32	0.84	0.86
Adjusted *		0.51	0.50	1.04	1.06
Fully diluted earnings per share	**0.63**	0.32	0.32	0.84	0.86
Adjusted *		0.51	0.50	1.04	1.06
Book value per share	**10.15**	12.56	11.79	11.32	10.96
Dividend per common share	**0.075**	–	0.15	0.275	0.275

* According to the new CICA accounting standard regarding goodwill impairment (see note 1(a) to consolidated Financial Statements)

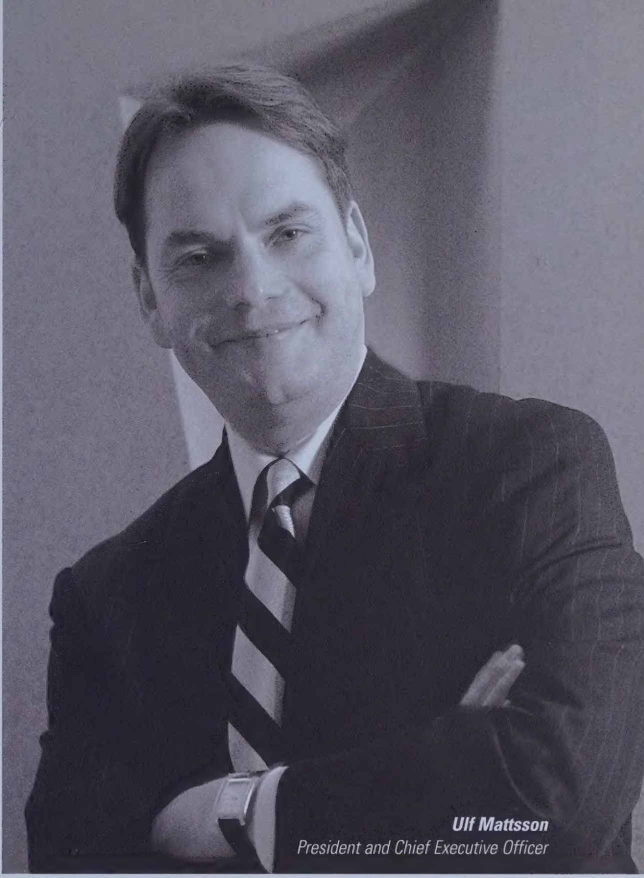
Quarterly twelve-month trailing and earnings per share (diluted) *

* After adjustment according to the new CICA accounting standard regarding goodwill impairment

Message to Shareholders

The year 2002 marked a return to growth at Domco Tarkett. The restructuring of operations into three divisions – each with strong management and a tighter focus on marketing and financial objectives – along with the launch of many innovative products, started to produce results in the second half of the year. We are pleased with the initial results of our more decentralized and entrepreneurial structure.

The operational restructuring begun in late 2001 intensified in 2002. It proved to be especially strategic for two key reasons. First, Domco Tarkett had made several acquisitions in recent years, which had increased our product and branding complexity. Second, our markets are constantly changing through technological advancements and further developments in interior architecture as well as commercial and residential décor. We therefore had to revise our ways of doing business and focus on specific objectives in order to become more competitive. More decentralized decision-making and a greater focus on each market segment are essential to increase our speed-to-market and profitability.



Ulf Mattsson
President and Chief Executive Officer

Our three divisions are now organized as profit centers with complete management teams to carry on their business, from research and development to production and marketing, partnerships with distributors and retailers, and customer service.

The initial effects of this restructuring effort were reflected in the improvement in results during the year. In 2002, we achieved our first annual sales growth since before the Domco/Tarkett integration. Sales totalled $667.2 million, up about 3% over 2001. We posted net earnings of $16.0 million or $0.63 per share, an increase of 95.5% over $8.2 million or $0.32 per share for 2001. After adjustment according to the new CICA accounting standard regarding goodwill impairment, the improvement in net earnings was 23.1% over $13.0 million or $0.51 per share for 2001. This growth was due to lower interest expenses and enhanced operating performance. We reinstated our dividend policy with a semi-annual payment to shareholders of $0.075 per share in December 2002.

While restructuring our operations, we also strengthened our balance sheet considerably, reducing our long-term debt (including the current portion) by almost half to $78.6 million as at December 31, 2002, down from $142.3 million a year earlier. At the close of fiscal 2002, the Corporation had total net debt of $63.5 million, compared with $85.8 million as at December 31, 2001. It should be noted that we have repaid a total of $101.6 million in long-term debt over the past two years.

Even though economic conditions remain uncertain and our profitability has far from reached its potential, we are encouraged to report progress. In 2002, Domco Tarkett started to play a "Winning Game" in the market, exercising a greater degree of precision in its execution with a more entrepreneurial spirit. There are success stories in all three divisions.

Besides successfully restructuring its operations in Whitehall, Pennsylvania, the **Residential Division** also increased its sales and share of the Canadian sheet vinyl flooring market. Its partnership with The Home Depot in this product category targeted mainly to the residential market is helping to grow its sales. The division continues to develop the potential of our TruTex® Innovative Surfacing which remarkably imitates the natural look of ceramic or stone in response to the greater demand for realistic finishes.

In 2002, innovation once again played a key role in the **Commercial Division**, especially in the luxury tile category, but also in other premium products. The division initiated "Project 10", a project aimed at improving the profitability of our vinyl composition tile (VCT) business which will have its initial impact in 2003. The division also expanded and more strategically targeted its distribution network, while forging new partnerships with major chain stores. The Nafco team's performance is one of the most shining successes of the year. Nafco managed to accelerate its sales and improved its profitability through actions such as an increased focus and the development of its distribution and above all, the successful launch of PermaStone™, a new luxury tile that offers a number of new features.

As for the **Hardwood Division**, it continued to innovate and strengthen ties with distributors. Its new commercial program proved effective in 2002, as the division landed specifications for a number of major retail chain stores. Our wood sales growth was accelerated by a new product with a pre-applied glue system launched in The Home Depot.

In 2003 and over the next few years, we will leverage the strategic platform provided by our three divisions to showcase Domco Tarkett's scope and strengths to position ourselves as a leader.

We enter 2003 focused on three on-going priorities, namely a further improvement in profitability, internal growth and innovation in products and processes. We will also look for expansion-by-acquisition opportunities if the right opportunities present themselves.

In a highly competitive market like ours, we must continuously review our product mix and business practices to keep our organization as lean and responsive as possible, and to ensure our product lines match market needs. In 2003, we will continue to restructure certain operations to build upon the measures taken in 2001-2002. We will focus on three potential areas of improvement which are of strategic importance to achieve our ambition of increasing our operating performance. First, secure market share in sheet vinyl by improving our retail presence. Second, as our hardwood profitability has dropped due to increased lumber prices and depressed strip flooring pricing, we will focus our efforts in order to raise our profitability to 2001 levels. Third, we will continue to improve our profitability in commercial tiles.

Finally, to complete the merger of our rich heritage of corporate cultures and brands, we have launched a Corporate Identity Project with the objective of better showcasing ourselves as a strong cohesive flooring powerhouse to the marketplace. This is of key strategic importance for our future development.

We would not have been able to return to growth as we did in the second half of 2002 without the support of creative and productive teams focused on common objectives. I want to thank all our employees for their sense of responsibility, exceptional cooperation, and hard work throughout this year of reorganization. Furthermore, we thank our customers for their loyal partnerships. I am confident that 2003 will be a productive year in which we will fully capitalize on our past achievements and further our strategies to consolidate our industry leadership.

Ulf Mattsson
President and Chief Executive Officer

From left to right: **James Morando, Jan Lembregts, Ulf Mattsson, Gilles de Beaumont and Jacques Bénétreau**

Senior Management

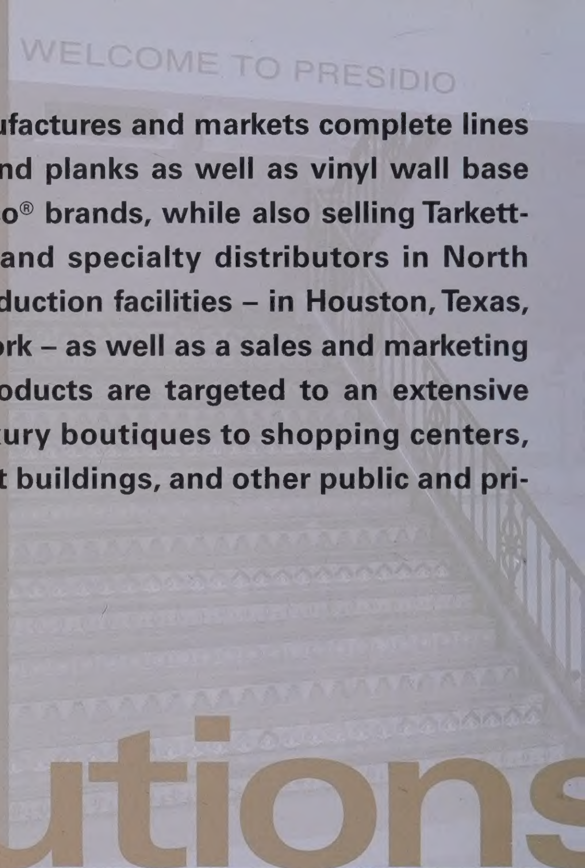
Ulf Mattsson
President and Chief
Executive Officer

James Morando
President
Hardwood Division

Jan Lembregts
President
Residential Division

Gilles de Beaumont
President
Commercial Division

Jacques Bénétreau
Chief Financial Officer,
Senior VP and Treasurer



The Commercial Division develops, manufactures and markets complete lines of luxury and standard vinyl floor tiles and planks as well as vinyl wall base sold under the Azrock®, Tarkett® and Nafco® brands, while also selling Tarkett-Sommer® products through wholesale and specialty distributors in North America. This division operates three production facilities – in Houston, Texas, Florence, Alabama, and Vails Gate, New York – as well as a sales and marketing unit based in Houston. The division's products are targeted to an extensive base of commercial customers, from luxury boutiques to shopping centers, schools, healthcare facilities, government buildings, and other public and private organizations.

solutions

Commercial Division

Gilles de Beaumont
President

What were your major achievements in 2002?

The introduction of PermaStone™ luxury vinyl tile was certainly Nafco's most successful marketing event ever and the Commercial Division's largest product launch so far. Exclusive to Nafco, PermaStone™ features an innovative two-sided grout treatment called GroutFit™, which allows tiles to fit together perfectly for a more realistic appearance. This new product was enthusiastically received by the market, and Nafco sold more than 4,500 PermaStone™ displays to retailers in the fourth quarter alone.

Another particularly interesting and promising innovation is Safe-T Sheet™, a homogeneous product incorporating the PUR (polyurethane) revolutionary technology exclusive to Tarkett Sommer. Safe-T Sheet™ is designed to prevent slips and falls while also meeting other critical needs in hospital operating rooms, such as optimal floor maintenance. Combining PUR and Thru Chip® technologies, Safe-T Sheet™ offers exceptional features that make it ideal for use in a variety of other busy public areas.

How did restructuring help the Commercial Division?

The initial results were reflected in our sales growth and improved profitability. Restructuring our operations and reorganizing our sales force increased our focus to make us more responsive to market needs, which in turn enabled us to adjust our product mix accordingly, better meet demand, and provide greater expertise by product type and brand. We also introduced the Tarkett-Sommer® brand in the United States, especially attractive with its new homogeneous products and new colour palettes. The restructuring also allowed us to take full advantage of the innovations launched in 2001. For instance, in 2002 we doubled our sales of Azrock® vinyl tiles (VET) introduced the previous year.

Unique in the industry, this product features a higher vinyl content, larger formats and a broader spectrum of colours, for enhanced durability, easy maintenance and unlimited design options.

Also in fiscal 2002, we implemented the first phase of a capital investment plan aimed at improving plant efficiency, earning recognized accreditations, and modifying various production lines to meet new market needs. In so doing, we successfully completed the program planned for the year at the Houston, Vails Gate and Florence facilities.

Did you expand the distribution channels for your various brands?

We not only forged partnerships with new distributors, but we also redefined the commercial distributor's role to better target our market needs and maximize the potential of our product lines. We thus created a Tarkett Sommer distribution network with 20 wholesale and 10 specialty distributors. We also expanded the territories and increased the number of distributors for most of our brands.

What are your main objectives for 2003?

Our main objective for the coming year is to further increase our level of profitability. In 2003, we will also implement the second phase of our capital investment plan while developing other product innovations and further increasing our market share. We will team up with the other two divisions to roll out our branding strategy in our various markets, which will help to consolidate our commercial positioning.

The Residential Division develops and manufactures product lines designed for the residential remodel and new construction markets. Marketed under the Domco® and Tarkett® brands, these products are targeted to specific segments such as distributors, specialty retailers, home centers and flooring contractors. At its Farnham plant in Québec, the division manufactures residential sheet flooring and develops technological innovations such as the new TruTex® innovative surfacing process. It also distributes laminate flooring products, as well as its own line of private-label floor care and maintenance products and a full line of accessories. Finally, through Domcor, the Residential Division is responsible for the distribution of all Domco®, Nafco®, Azrock® and Harris-Tarkett® brands in Canada.

style

Residential Division

Jan Lembregts
President

How did the restructuring help the division's growth in 2002?

We are excited by our turnaround in 2002. All the division's resources teamed up to enhance profitability, significantly cutting costs while achieving greater manufacturing productivity and solid price management. That in turn helped to boost our profit margins and to raise our operating income significantly in 2002.

Dedicated to the division's growth, our better-structured team focused on specific marketing and financial objectives:
- restructuring our operations in Whitehall, Pennsylvania;
- developing, fine-tuning and applying our proprietary technology, TruTex® Innovative Surfacing;
- streamlining several product lines, especially those designed for the new construction market; and
- expanding our distribution network, primarily in major home centers.

What major innovations were launched in 2002?

The year's highlight was definitely the launch of our TruTex® Innovative Surfacing, a major advance in flooring combining the many benefits of a quality vinyl product with the realistic texture and colour of a natural material. The Domco Vintage™ and Tarkett Contours™ products using this innovative process immediately won market interest and contributed to our sales and profit growth in 2002. We are very proud of this technological advancement and foresee a great future with this process, as it matches the latest decorating trends and the desire of a growing number of consumers for quality products with a natural appearance.

Did you penetrate new markets in 2002?

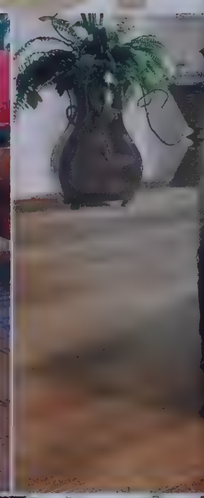
For the first time in several years, we resumed our growth in the Canadian market with our sheet vinyl product. Large home center chains hold great opportunities for our Division given the sustained boom in the remodel market. In 2002, we developed our partnership with The Home Depot, which now distributes our sheet and laminate flooring, and we are very pleased with the steady sales growth resulting from this development. We also expanded our offering in other home centers in both the United States and Canada.

What are your priorities for fiscal 2003?

Priorities for 2003 remain further improving our profitability and growing our sales. We will continue to promote our new TruTex® innovative surfacing, which will allow us to launch a new generation of sheet flooring. We are also building upon our solid Canadian positioning in the laminate category to penetrate new regional markets in the United States. As for the Domco® and Tarkett® lines, we will define and implement a clear branding strategy, continue to improve distribution channels, and strive to forge promising new marketing alliances.

The Hardwood Division is a major player in the prefinished strip flooring market, while also enjoying a high profile in unfinished strip flooring. The Division has six manufacturing facilities in the United States, in Tennessee, Indiana, Arkansas and Virginia. It produces the most complete line of hardwood flooring, including prefinished and unfinished solid strip flooring, prefinished and unfinished engineered plank, prefinished longstrip flooring, and unfinished specialty parquets, plus a full range of transitions and moldings. Its products are marketed through an extensive network of independent distributors in the United States and through Domcor, Domco Tarkett's distribution arm in Canada. Domco Tarkett holds 7% of the North American hardwood flooring market through its Hardwood Division, making it the second largest player in this fast-growing industry.

distinction



Hardwood Division

James Morando
President

Did the Hardwood Division achieve its objectives in 2002?

2001 and 2002 were challenging years for the industry. In 2001, we were faced with low single-digit increase in demand for wood flooring. Demand in the previous ten years grew by an average of almost 10%. We overcame this challenging environment and posted record sales in 2001 that outpaced the overall industry's growth by a factor of almost four. We are very pleased with our sales performance in the second half of 2002 with an increase of 14.9% over the corresponding period of fiscal 2001. We achieved sales growth of 10.5% for 2002 as a whole. Unfortunately, skyrocketing lumber prices and record low prices for unfinished flooring had a negative impact on our gross margins and affected our profitability in the second half of the year on unfinished products. We have accomplished a great deal towards implementing the strategy we developed two years ago. While we began working on several of these key initiatives in 2001, the lion's share of the progress was realized in 2002.

What strategic progress was made in 2002?

We strengthened our positioning by executing a five-component strategy focused on upgrading our management, our product lines, our distribution, our retail customer base, and our merchandising. We have already accomplished the majority of our goals for the first three initiatives, while making great strides with the last two. For instance, we upgraded our management talent significantly and now benefit from its expertise and commitment. We also continued to innovate by introducing high-quality, fashion forward products that optimize customers' sales and profit opportunities. In fact, the products launched in the past 18 months accounted for 25% of our total SKUs but generated 40% of our fourth-quarter sales. One innovation that deserves special mention is Avenues™, an exceptionally durable and appealing product that is ideal for a variety of commercial applications.

As for distribution, the past two years' innovations in our product lines enabled us to further upgrade our distribution network with new top-tier distributors in over half the U.S. In 2002, we also placed our products and brands with several key customer groups such as Carpet One and the largest home center. For example, a large number of our products were selected for inclusion in a state-of-the-art selling system available to all Carpet One members. What's more, our number of retail displays has increased by over 30% since early in the year. Our efforts also focused on upgrading our merchandising with the recent development of a "best-in-class" merchandising program that will make it much easier for retailers to sell an enhanced product mix.

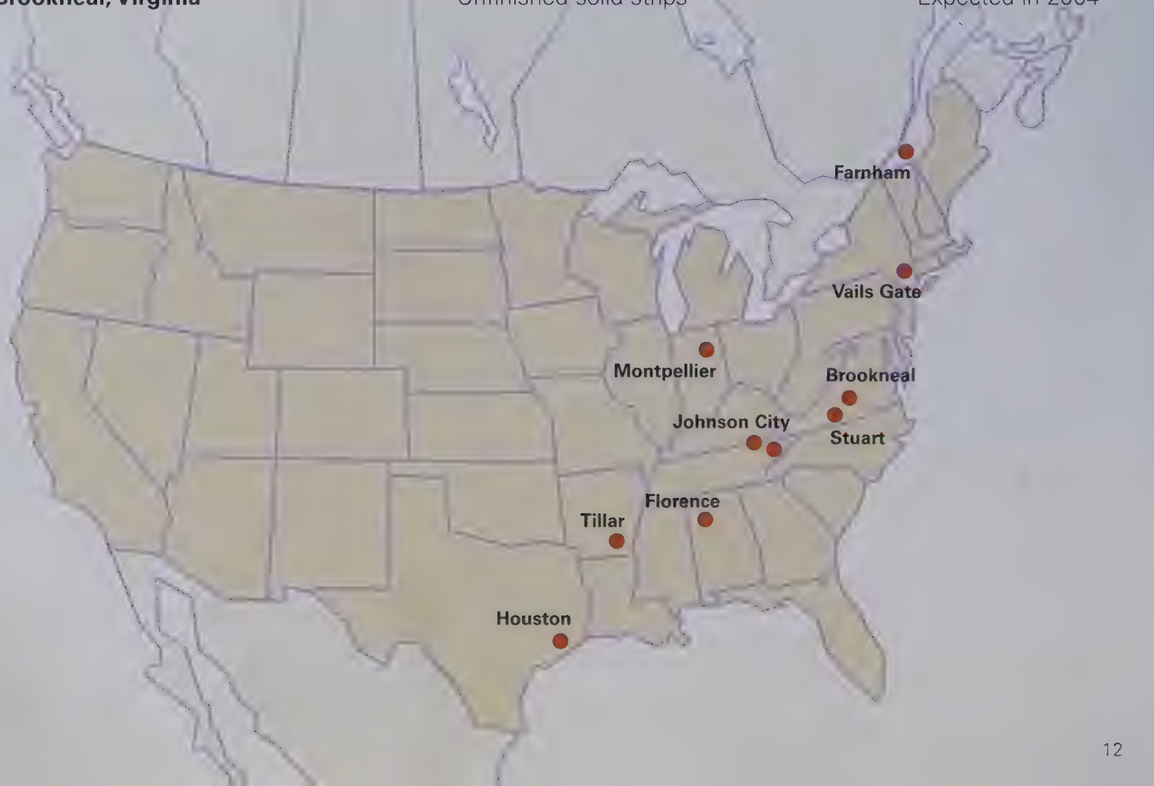
What are your outlook and objectives for 2003?

Our focus will be to reverse the decline in profits we experienced in 2002. From a sales standpoint, we are positioned to outperform the overall industry once again. We will leverage our key competitive strengths, our unmatched product selection, very effective distribution network and well established retail relationships to provide all of our customers the opportunity to maximize sales and profits. In 2003, a major effort will be on introducing our "best-in-class" merchandising program, on launching a major proprietary product, and on optimizing our relationships with distributors, retailers and contractors. We will also work on enhancing our production efficiency in all our plants. Finally, we will build upon our fundamentals to promote our corporate identity – which in turn will drive the future growth of our market share and results.

Domco Tarkett Plants

As at December 31, 2002

	Products	ISO Certification
Residential		
Farnham, Québec	Sheet vinyl	ISO 9001
Commercial		
Florence, Alabama	Luxury vinyl tiles and planks, vinyl and rubber wall base, solid vinyl tiles (SVT) and vinyl enhanced tiles (VET)	ISO 9002
Houston, Texas	Commercial vinyl composition tiles (VCT)	ISO 9002
Vails Gate, New York	Commercial vinyl composition tiles (VCT)	ISO 9001
Hardwood		
Johnson City, Tennessee	Longstrips and prefinished engineered and solid hardwood products	Expected in 2004
Johnson City, Tennessee	Unfinished parquets moldings	Expected in 2004
Montpelier, Indiana	Veneer and plywood: intermediate product delivered to Johnson City	Expected in 2004
Tillar, Arkansas	Unfinished solid strips	Expected in 2004
Stuart, Virginia	Unfinished solid strips	Expected in 2004
Brookneal, Virginia	Unfinished solid strips	Expected in 2004



Management's Discussion and Analysis of Operating Results and Financial Position

The following management's discussion and analysis of Domco Tarkett's consolidated operating results and financial position for the fiscal years ended December 31, 2002 and 2001 should be read in conjunction with the consolidated financial statements and the accompanying notes included in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. It should be noted that, effective January 1st, 2002, Domco Tarkett adopted the new accounting standards of the Canadian Institute of Chartered Accountants including the one regarding goodwill and other intangible assets.

In 2002, Domco Tarkett continued to implement the operational structure in its three divisions and the various measures aimed at improving its profitability announced in 2001. For the second consecutive year, the Corporation strengthened its balance sheet by repaying almost half its debt during 2002. It remained on the innovation track and launched several products that set it apart. Despite the non-recurring restructuring costs it had to assume in 2002, it started to reap the benefits of its reorganization, of the reduction in its debt and of the introduction of new products. Its 2002 second-half results showed a substantial improvement over the same period in 2001, and its adjusted net earnings increased by 23.1% during the fiscal year.

Operating Results

Consolidated net sales totalled $667.2 million, up almost 3% over $649.6 million in fiscal 2001. While net sales for the first half of the year were down 0.2% from the first six months of 2001, those for the second half grew by 5.9% to $327.8 million, compared with $309.6 million for the same period in 2001.

Resilient flooring contributed net sales of $464.3 million for the fiscal year, holding fairly steady compared with the previous year. The Residential Division's sales amounted to $217.6 million, while the Commercial Division's totalled $246.7 million. Net sales of hardwood flooring increased by 10.5% over 2001, rising to $202.9 million to account for 30.4% of consolidated net sales in 2002, up from 28.3% in 2001. As in the previous year, the Corporation realized 84.7% of its net sales in the United States, and the balance mainly in Canada.

Revenues
(in millions of dollars)

Gross profit amounted to $192.8 million, compared with $193.1 million in fiscal 2001. **The gross profit margin** went from 29.7% in 2001 to 28.9%, this variation of 0.8% being due to the increase in sales of hardwood flooring where the gross margin is lower than in resilient products. Moreover, the margin in the hardwood sector declined in 2002 due to higher lumber costs and lower unfinished strip prices.

Administrative, distribution and selling expenses totalled $142.4 million, down by $2.9 million from $145.3 million the previous year. Such expenses represented 21.3% of consolidated net sales during 2002, versus 22.4% in 2001. The streamlining of some resilient flooring operations and the Corporation's greater organizational efficiency had a positive impact on the control of operating costs.

Earnings before interest, income taxes, depreciation and amortization (EBITDA) amounted to $49.7 million, compared with $49.1 million the prior year. It should be noted that the Corporation had to assume non-recurring restructuring costs of $3.6 million in 2002. Without these costs, EBITDA would have reached $53.3 million, or 8% of consolidated net sales.

Net interest on total net debt was lowered by almost $2.8 million in 2002. This reduction in financial expenses was due mainly to the substantial repayment of debt during the year, coupled with a decrease in interest rates.

Net earnings rose to $16.0 million or $0.63 per share, up from $8.2 million or $0.32 per share the prior year, an increase of 95.5%. As announced previously, effective January 1st, 2002, the Corporation adopted the CICA's new accounting standard regarding goodwill and other intangible assets. Consequently, net earnings for 2002 were up 23.1% over the adjusted net earnings for fiscal 2001, which amounted to $13.0 million or $0.51 per share. In the second half of the year the Corporation's net earnings grew by 95.2% to $8.2 million, up from $4.2 million for the same period in 2001.

Quarterly Highlights

(in thousands of dollars, except per share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2002	2001 *	**2002**	2001 *	**2002**	2001 *	**2002**	2001 *
	$	$	**$**	$	**$**	$	**$**	$
Consolidated net sales	**160,219**	163,054	**179,176**	176,982	**178,670**	170,411	**149,153**	139,174
Net earnings (loss)	**2,327**	3,132	**5,392**	5,689	**7,428**	5,623	**803**	(1,449)
Per share (loss)								
Basic	**0.09**	0.12	**0.21**	0.23	**0.30**	0.22	**0.03**	(0.06)
Fully diluted	**0.09**	0.12	**0.21**	0.23	**0.30**	0.22	**0.03**	(0.06)

* After adjustment according to the new CICA accounting standard regarding goodwill impairment

Cash Flows

Cash flows from operating activities (after net change in non-cash working capital balances) amounted to $39.5 million compared with $57.9 million the previous year. An increase in accounts receivable and inventories was offset by higher accounts payable.

Capital expenditures totalled $17.4 million, compared with $16.6 million in 2001. These investments were allocated to fixed assets, mainly production equipment needed by the three divisions.

Total net decrease in cash and cash equivalents was $41.4 million in fiscal 2002, reflecting mainly the substantial repayment of debt during the year.

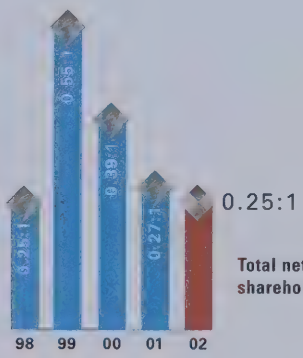
Financial Position

Total assets amounted to $472.4 million as at December 31, 2002, down from $597.8 million a year earlier. This $125.4 million decline came from a $34.6 million decrease in current assets, due to lower cash and cash equivalents at the end of 2002 than as at December 31, 2001; and from a $74.4 million reduction in goodwill, net of related deferred income taxes, in accordance with the new accounting standard regarding goodwill impairment.

As at December 31, 2002, accounts receivable were up by $6.0 million or 11% over a year earlier, whereas our fourth-quarter sales increased by 7.2%. Customers generally respect the negotiated payment schedules, and the Corporation considers accounts receivable present no unusual credit risk.

Long-term debt (including the current portion) totalled $78.6 million as at December 31, 2002, compared with $142.3 million at the end of the previous fiscal year, a reduction of $63.7 million in 2002. The Corporation has thus repaid a total of $101.6 million in long-term debt over the past two years. **Total net indebtedness** amounted to $63.5 million as at December 31, 2002, versus $85.8 million a year earlier.

Shareholders' equity declined to $257.9 million as at December 31, 2002, down by $61.2 million from $319.1 million a year earlier. This decrease was due mainly to the adoption of the new accounting standard regarding goodwill impairment. The book value per share stood at $10.15, compared with $12.57 in 2001.



Total net indebtedness to shareholders' equity ratio

The Corporation showed **a total net indebtedness to shareholders' equity ratio** of 0.25:1 as at December 31, 2002, compared with 0.27:1 at the close of the previous fiscal year.

Considering its reduced debt and the satisfactory cash flows generated by its operating activities, the Corporation believes it can meet all its financial obligations in fiscal 2003. Using the year's cash flows from operating activities, it should be able to cover all its operating requirements in the normal course of business, including its capital expenditures and its scheduled debt repayments.

Payment of Dividends

Following the Corporation's improved profitability in the third quarter of 2002, its Board of Directors decided to resume the dividend policy, and declared a semi-annual dividend of $0.075 per common share. These dividends were paid on December 5, 2002, and represent a total of $1.9 million for the fiscal year.

Risks and Uncertainties

The Corporation's results can be affected by several factors, including an economic slowdown, fluctuations in currencies, interest rates, the cost of raw materials and energy, and competition.

Market Cyclicality. The flooring market is dependent on construction and renovation activities in both the residential and commercial sectors. With its new three-division structure further targeted to market needs and enhanced innovativeness enabling it to stand apart with innovative products, the Corporation is better prepared than ever to realize its markets' full potential.

Competition. The Corporation's products are in competition with other types of flooring available in North America. In recent years, there has been an increased penetration of the high-end residential market by flooring made of natural materials, at the expense of resilient flooring. To meet this challenge, the Corporation continues to develop new processes and resilient flooring that competes favourably with natural materials.

Currency. The Corporation generates some 85% of its consolidated net sales in the United States. Fluctuations in rates can affect its consolidated figures due to the flow of finished products between Canada and the U.S. and the purchase of raw materials in the United States. Nevertheless, these fluctuations have a relatively minimal impact on the Corporation's profitability.

Credit. Concentration of credit risk with respect to trade receivables is limited due to the large number of customers who are spread across several geographical regions, mostly in Canada and the United States, with the exception of one customer who accounted for 30% of the Corporation's consolidated receivables as at December 31, 2002.

Environment. The Corporation is subject to Canadian and American laws relating to employee health and safety as well as the control of various substances. In general, its businesses do not involve activities likely to create significant environmental risks. However, the Corporation's operations do involve the use of various materials that must be handled in accordance with applicable laws and it takes all necessary measures to comply with these laws.

Raw Materials. Raw materials account for an important percentage of the cost of goods sold. For resilient flooring, these materials represent more than 60% of the cost of goods sold. Because they are petroleum-derived, their cost is affected by fluctuations in petroleum prices. For hardwood flooring, most of the raw materials represent 50% to 55% of the cost of goods sold. These prices fluctuate with changes in supply and demand.

Outlook

In 2003, the Corporation should continue to reap the benefits of its reorganization, the launch of new products in the last two years, the implementation of a more entrepreneurial culture in its three divisions and its improved financial position.

Over the next year, Domco Tarkett will further reinforce the measures taken to enhance its profitability in 2002, while stepping up efforts to increase its sales, especially in the resilient flooring sector. The priorities of the teams in all three divisions are to steadily improve their manufacturing and distribution productivity and efficiency, and to develop and market products meeting new trends and recognized for their quality and competitive advantages.

The Corporation is confident the improvements throughout its organization will have a positive impact on its financial results in the coming periods.

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Domco Tarkett Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The significant accounting policies used are described in notes 1 and 2 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Domco Tarkett Inc. maintains systems of internal accounting and administrative controls which are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Corporation's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and a majority of its members are outside directors. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Jacques Bénétreau
Chief Financial Officer,
Senior Vice President and Treasurer

Ulf Mattsson
President and Chief Executive Officer
March 13, 2003

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Domco Tarkett Inc. (the "Corporation") as at December 31, 2002 and 2001, and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Montréal, Canada
February 7, 2003

Consolidated Balance Sheets

Years ended December 31, 2002 and 2001 (In thousands of dollars)

	2002	2001 (Restated - see note 1 (c))
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 15,082**	$ 56,484
Accounts receivable	**58,411**	52,390
Income taxes recoverable	**–**	1,957
Inventories (note 4)	**128,209**	126,296
Prepaid expenses	**4,882**	4,955
Future income taxes (note 11)	**9,700**	8,807
	216,284	250,889
Property, plant and equipment (note 5)	**156,062**	163,009
Goodwill, net of accumulated amortization (note 1 (a))	**21,551**	133,786
Other assets (note 6)	**31,855**	31,748
Future income taxes (note 11)	**46,635**	18,364
	$ 472,387	$ 597,796
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 90,646**	$ 81,435
Income taxes payable	**6,265**	–
Future income taxes (note 11)	**2,677**	8,774
Current portion of long-term (note 7)	**18,543**	15,499
	118,131	105,708
Long-term debt (note 7)	**60,020**	126,778
Accrued employees' future benefit liabilities (note 10)	**25,356**	25,395
Future income taxes (note 11)	**10,972**	20,808
Shareholders' equity:		
Capital stock and contributed surplus (note 8)	**166,931**	166,931
Retained earnings	**70,685**	120,974
Cumulative translation adjustments (note 9)	**20,292**	31,202
	257,908	319,107
Commitments and contingencies (notes 15 and 16)		
	$ 472,387	$ 597,796

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Robert Arcand
Director

Claude Lemire
Director

Consolidated Statements of Earnings

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

	2002	2001 (Restated - see note 1 (c))
Revenues	$ 667,218	$ 649,621
Cost of goods sold	474,408	456,530
Gross margin	192,810	193,091
Expenses:		
Administrative, distribution and selling expenses	142,440	145,309
Depreciation and amortization	22,316	23,597
Amortization of goodwill	–	7,555
Interest on long-term debt	6,167	10,525
Other interest income	(227)	(1,689)
Foreign exchange loss (gain)	677	(1,351)
	171,373	183,946
Earnings before provision for income taxes	21,437	9,145
Provision for (recovery of) income taxes (note 11):		
Current	13,540	577
Future	(8,053)	408
	5,487	985
Net earnings	$ 15,950	$ 8,160
Earnings per share (note 12):		
Basic	$ 0.63	$ 0.32
Diluted	$ 0.63	$ 0.32

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

Years ended December 31, 2002 and 2001 (In thousands of dollars)

	2002	2001
Retained earnings, beginning of year, as previously reported	$ 121,275	$ 113,352
Adoption of new accounting standard regarding goodwill impairment, net of related income taxes of $37,593 (note 1 (a))	(64,333)	–
Adoption of new accounting standard regarding foreign currency translation, net of related income taxes of $161 ($289 in 2001) (note 1 (c))	(301)	(538)
Retained earnings, beginning of year, as restated	56,641	112,814
Net earnings	15,950	8,160
	72,591	120,974
Dividends on common shares	(1,906)	–
Retained earnings, end of year	$ 70,685	$ 120,974

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31, 2002 and 2001 (In thousands of dollars)

	2002	2001 (Restated - see note 1 (c))
Cash flows from operating activities:		
Net earnings	$ 15,950	$ 8,160
Adjustments to determine net cash from operating activities:		
Depreciation and amortization	22,316	23,597
Amortization of goodwill	–	7,555
Amortization of deferred financing charges	1,280	904
Future income taxes	(8,053)	408
Other	(1,250)	(86)
	30,243	40,538
Net change in non-cash balances related to operations (note 13)	9,259	17,360
	39,502	57,898
Cash flows used in financing activities:		
Repayment of long-term debt	(62,153)	(39,398)
Dividends	(1,906)	–
Increase in deferred financing charges	(443)	(818)
	(64,502)	(40,216)
Cash flows used in investing activities:		
Purchase of property, plant and equipment	(17,370)	(16,598)
Proceeds from disposal of property, plant and equipment	399	568
Business acquisition, net of cash (note 3)	–	(1,331)
	(16,971)	(17,361)
Effect of changes in exchange rates on cash and cash equivalents	569	2,256
Net (decrease) increase in cash and cash equivalents	(41,402)	2,577
Cash and cash equivalents, beginning of year	56,484	53,907
Cash and cash equivalents, end of year	$ 15,082	$ 56,484
Supplemental cash flow information:		
Interest paid	$ 5,019	$ 10,676
Income taxes paid (recovered), net	4,937	(3,628)

See accompanying notes to consolidated financial statements.

Domco Tarkett Inc. (the "Corporation"), incorporated under the Canada Business Corporations Act, is a manufacturer and distributor of floor covering products. These consolidated financial statements are expressed in Canadian dollars and include the accounts of the Corporation and those of its subsidiaries from the respective dates of acquisition.

1. Changes in accounting policies:

(a) Goodwill and intangible assets:

Effective January 1, 2002, Domco Tarkett Inc. adopted the new CICA recommendations related to goodwill and intangible assets (Handbook Section 3062).

The guidance found in Section 3062 states that goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of a reporting unit is compared with its fair value. When the fair value exceeds its carrying amount, goodwill is considered not to be impaired, and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any.

As of the date of adoption, the Corporation had unamortized goodwill in the amount of $133,8 million which is no longer being amortized. In accordance with the requirements of Section 3062, this change in accounting policy is not applied retroactively and the amounts presented for prior periods have not been restated for this change.

The Corporation determined as of the date of adoption that it has three reportable segments: Hardwood, Residential Resilient and Commercial Resilient. The Commercial Resilient reportable segment includes a separate reporting unit, Nafco. The Corporation has allocated all assets (including goodwill) and liabilities to these four reporting units, and conducted the first step of the transitional goodwill impairment test as of the date of adoption for all reporting units. The fair value of each reporting unit was determined by estimating the present value of future cash flows and by using multiples of EBITDA. Based on this test, the Corporation determined that goodwill in the Nafco and in the resilient reporting segment was impaired as at the date of adoption; accordingly, a transitional goodwill impairment loss of $74.4 million (net of taxes of $37.6 million) was recognized. Pursuant to the transitional provisions of Section 3062, $64.3 million was charged to opening retained earnings and the balance of $10.1 million was recorded as cumulative translation adjustments.

The following summarizes the effect of this accounting change if it had been applied retroactively:

(in thousands of dollars, except per share amounts)	**2002**	2001 (Restated - see note 1 (c))
Net earnings, as reported in the consolidated statements of earnings	**$ 15,950**	$ 8,160
Goodwill amortization, net of income taxes of $2,720	**–**	4,835
Net earnings, as adjusted	**$ 15,950**	$ 12,995
Earnings per share, adjusted:		
Basic	**$ 0.63**	$ 0.51
Diluted	**$ 0.63**	$ 0.51

The Corporation conducted the first step of the annual goodwill impairment test and based on this test, determined that there is no impairment.

(b) Employee future benefits:

Effective January 1, 2002, the Corporation retroactively adopted the market-related value to measure the expected return on plan assets. The market-related value method recognizes changes in the fair value of plan assets over a period of five years. This change in accounting policy did not have a significant impact on the consolidated balance sheet and consolidated statements of earnings and retained earnings and cash flows as at and for the year ended December 31, 2001. This change in accounting policy resulted in a reduction of pension expense of $556 (net of income taxes of $300) for the year ended December 31, 2002.

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

1. Changes in accounting policies (continued):

(c) Foreign currency translation:

In November 2001, the CICA approved the modification of Section 1650 of the CICA Handbook, *Foreign Currency Translation*, to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items. The Corporation retroactively adopted the new recommendations effective January 1, 2002 with restatement of the comparative figures. The impact of the adoption on the comparative figures was as follows:

Decrease in other assets	$ 462
Increase in future tax assets	161
Decrease in retained earnings, beginning of year	538
Increase in net earnings	237
Decrease in retained earnings, end of year	301

The net income for the year ended December 31, 2002 increased by $301 (net of income taxes of $161) with the adoption of this change in accounting policy.

(d) Stock-based compensation:

In December 2001, the Accounting Standards Board of the CICA issued Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* Section 3870 establishes standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. It applies to transactions in which shares of common stock, stock options, or other equity instruments are granted or liabilities incurred based on the price of common stock or other equity instruments. The Corporation adopted Section 3870 on January 1, 2002.

Section 3870 sets out a fair value based method of accounting that is required for certain, but not all, stock-based transactions. Fair value based method of accounting must be applied to all stock-based payments to non-employees, and to employee awards that are direct awards of stock, that call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instruments. Although enterprises are encouraged to apply the fair value based method of accounting to all awards, the new standard allows for no compensation cost for other share plans to be recorded either on the grant of stock options to employees or the purchase of shares under the share purchase plan. Therefore, the Corporation has elected to continue its existing policy of settlement accounting. Under this policy, consideration paid by employees on the exercise of stock options and the purchase of shares under the share purchase plan is recorded as share capital.

Given the Corporation has elected to apply settlement accounting, Section 3870 requires additional disclosures for options granted to employees, including disclosure of pro forma net earnings and pro forma earnings per share as if the fair value-based accounting method had been used to account for employee stock options and shares purchased under the share purchase plan. Because no options were issued and no shares were purchased under the share purchase plan in 2002, and given that the Corporation has chosen to omit the effect of awards granted before January 1, 2002, pro forma net income and pro forma earnings per share have not been presented.

Additional information regarding the long-term incentive plan is presented in note 8 (c) to the Corporation's annual financial statements.

2. Significant accounting policies:

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Cash and cash equivalents:

Cash and cash equivalents comprise cash and highly liquid investments which have a maturity of three months or less from the date of acquisition.

2. Significant accounting policies (continued):

(b) Revenue recognition:

The Corporation recognizes revenue when the following have occurred: persuasive evidence of an arrangement exists; delivery has occurred; the selling price is fixed and determinable; and collection is reasonably assured. The Corporation has concluded that these criteria are met upon shipment of products. Provisions for sales incentives are recognized as sales reductions concurrently with the recognized revenue.

(c) Inventories:

Finished goods and work in process are valued at the lower of cost, determined on the first in, first out basis, and net realizable value. Raw materials are valued at the lower of cost, determined on the first in, first out basis, and replacement cost.

(d) Income taxes:

The Corporation follows the asset and liability method for future income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to the difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates represent amounts that are expected to be recovered or settled. Under the asset and liability method, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment or substantial enactment date.

(e) Property, plant and equipment:

Property, plant and equipment are recorded at cost, net of investment tax credits and applicable government grants, which could become partially repayable should the Corporation fail to maintain specified employment and investment levels. Depreciation is provided based on the estimated useful lives of the assets on the following basis:

Asset	Method	Rate
Buildings and improvements	Declining balance and straight-line	3% to 20%
Equipment	Declining balance and straight-line	4% to 33%
Property under capital lease	Straight-line	3%

No depreciation is provided for assets under construction or development.

(f) Other assets:

The net cost of sales aids is deferred and amortized using the straight-line method over a period not exceeding 24 months.

Charges related to debt financing are deferred and amortized over the duration of the financing. Other deferred charges are amortized using the straight-line method over their estimated useful lives.

(g) Employee future benefits:

The Corporation and its subsidiaries maintain defined benefit and defined contribution pension plans for the benefit of substantially all employees. In addition, the Corporation provides other benefits, such as life and medical insurance, to certain retired employees.

The Corporation and its subsidiaries accrue their obligations under employee benefit plans as the employees render the services necessary to earn pension and other employee future benefits. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected unit credit method and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs.
- The expected return on plan assets is calculated using a market-related value recognizing the change in fair value of plan assets over a period of five years. (see note 1 (b)).
- Past service costs resulting from plan amendments and net actuarial gains (losses) are amortized on a straight-line basis over the average remaining service period of the active employees.
- The average remaining service period of the active employees covered by the pension plans is between 14 and 16 years (2001 - 12 and 17 years). The average remaining service period of the active employees covered by the other retirement benefit plans is between 5 and 6 years (2001 - 6 and 7 years).

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

2. Significant accounting policies (continued):

(h) Translation of foreign currencies:

The Corporation translates the accounts of its self-sustaining US subsidiaries using the current rate method. All balance sheet items are translated into Canadian dollars at rates of exchange prevailing at the year-end. Revenue and expense items are translated at average rates of exchange prevailing during the year. The resulting net gain or loss is shown as "Cumulative translation adjustments" in shareholders' equity.

Accounts of the Corporation in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at year-end, and non-monetary items are translated at historical exchange rates. Foreign currency transactions are translated at the weighted average rate for the year. Exchange gains or losses are included in the consolidated statements of earnings.

(i) Earnings per share:

Diluted earnings per share are calculated using the treasury stock method. In calculating diluted earnings per share, the weighted average number of common shares outstanding for the period is increased to include additional shares from the assumed exercise of options, if dilutive. The number of additional shares is calculated by assuming that outstanding options are exercised and that the proceeds from such exercises are used to repurchase common shares at the average share price for the period.

(j) Derivative financial instruments:

Derivative financial instruments are used by the Company in the management of its interest rate exposures. Because derivative instruments are used for hedging purposes only, the cost of acquiring derivative financial instruments is amortized over the duration of the agreement. The income or expense resulting from the use of these instruments is included in net earnings for the period. Unrealized gains and losses are not recognized until the maturity of the underlying instrument.

3. Business acquisition:

On March 23, 2001, the Corporation acquired certain assets of HFI Hardwood Flooring Inc., a Canadian hardwood flooring product distributor for a cash consideration of $1,331. This acquisition has been accounted for using the purchase method and resulted in goodwill of $373.

The following reflects the allocation of the purchase price to the net assets acquired:

Inventories	$ 788
Property, plant and equipment	120
Other assets	50
Goodwill	373
	$ 1,331

4. Inventories:

	2002	2001
Raw materials	**$ 30,872**	$ 30,945
Work in process	**12,510**	9,918
Finished goods	**84,827**	85,433
	$ 128,209	$ 126,296

5. Property, plant and equipment:

			2002
	Cost	**Accumulated depreciation**	**Net book value**
Land	**$ 6,331**	**$ –**	**$ 6,331**
Buildings and improvements	**80,320**	**25,243**	**55,077**
Equipment	**202,896**	**122,229**	**80,667**
Assets under construction or development	**10,882**	**–**	**10,882**
Property under capital lease	**3,780**	**675**	**3,105**
	$ 304,209	**$ 148,147**	**$ 156,062**

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

5. Property, plant and equipment (continued):

	Cost	Accumulated depreciation	2001 Net book value
Land	$ 6,388	$ –	$ 6,388
Buildings and improvements	80,047	20,619	59,428
Equipment	199,691	112,653	87,038
Assets under construction or development	6,821	–	6,821
Property under capital lease	3,816	482	3,334
	$ 296,763	$ 133,754	$ 163,009

The cost of property, plant and equipment has been presented net of $5.72 million of government assistance (2001 - $5.72 million).

6. Other assets:

	2002	2001 (Restated - see note 1 (c))
Sales aids, net of accumulated amortization	**$ 25,303**	$ 23,517
Accrued employees' future benefit asset	**587**	1,443
Deferred financing charges, net of accumulated amortization	**710**	1,632
Cash surrender value of life insurance	**2,614**	2,453
Other	**2,641**	2,703
	$ 31,855	$ 31,748

7. Long-term debt:

	2002	2001
(a) Term loan under a US$45 million credit facility bearing interest at the LIBOR rate plus 0.95% (1.0% starting April 1, 2003) and repayable in a final payment of US$17.0 million on July 31, 2004 (US$28.6 million in 2001). The effective interest rate as at December 31, 2002 was 2.78% (2001 - 2.92%).	**$ 26,819**	$ 45,553
(b) Term loan of US$60 million bearing interest at variable rates based on LIBOR or US base rate plus a margin determined on a quarterly basis, repayable in minimum annual instalments of US$6.6 million and a final payment of US$19.2 million on July 30, 2004. The loan outstanding at December 31, 2002 was US$25.8 million (2001 - US$53.4 million) The effective interest rate as at December 31, 2002 was 2.68% (2001 - 3.61%).	**40,702**	85,055
(c) 6.5%, US$1.3 million note payable maturing on August 15, 2003 (2001 - US$1.3 million).	**2,051**	2,071
(d) 6.0%, US$3.5 million note payable maturing on August 15, 2003 (2001 - US$3.5 million).	**5,522**	5,575
(e) Obligations under capital lease of US$1.7million bearing interest at 9.75%, repayable in monthly instalments of US$33,000 and maturing in 2008.	**2,717**	3,082
(f) Interest-free loan from Société de développement industriel du Québec ("SDI") repayable in five annual instalments of $188 commencing in September 2002. The loan outstanding at December 31, 2002 was $752 (2001 - $941).	**752**	941
	78,563	142,277
Less current portion	**18,543**	15,499
	$ 60,020	$ 126,778

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

7. Long-term debt (continued):

The loans under (a) and (b) are collateralized by securities on receivables, inventories and the main fixed assets of the Corporation and its subsidiaries.

The note under (c) is collateralized by land and buildings and improvements.

The terms of the credit facilities require that certain financial and non-financial covenants be met by the Corporation. These include the maintenance of certain financial tests and ratios and certain restrictions and limitations, including those on the amount of capital expenditures and amount of dividends paid by the Corporation. Management considers that respecting these covenants will not affect normal operations.

The Corporation is also party to an interest rate swap agreement for the period of March 28, 2002 to July 30, 2004, for an initial notional amount of US$60 million gradually decreasing to US$30 million. This transaction consists in a swap of the three-month USD LIBOR rate (received by the Corporation) against the constant maturity USD two-year rate (paid by the Corporation) associated with a knock-out cap on the two-year rate at 3.97% until March 28, 2003 and at 4.78% afterwards.

Payments required over the next four years for long-term debt, excluding obligations under capital leases, are as follows:

2003	$ 18,173
2004	57,297
2005	188
2006	188
	$ 75,846

The minimum payments required for obligations under capital leases are as follows:

2003	$ 625
2004	625
2005	625
2006	625
2007	625
Thereafter	467
Total minimum lease payments	3,592
Less amount representing interest at 9.75%	875
Present value of net minimum capital lease payments	2,717
Current portion of obligations under capital leases	370
	$ 2,347

8. Capital stock and contributed surplus:

(a) Authorized:
Unlimited number of common shares

(b) Issued and outstanding:

	2002	2001
25,407,535 common shares (2001 - 25,407,535)	**$ 165,445**	$ 165,445
Contributed surplus	**1,486**	1,486
	$ 166,931	$ 166,931

(c) Long-term incentive plan:

The Corporation has a long-term incentive plan (the "Plan") for its senior executives. The Plan is composed of a share purchase plan and options to purchase common shares of the Corporation.

According to the terms of the share purchase plan, each eligible executive under the Plan will be entitled to purchase a number of common shares of the Corporation over a five-year period as a function of base salary, at a price equal to 95% of the weighted average price of the common shares on the Toronto Stock Exchange during the five consecutive days prior to the purchase date. The maximum number of common shares that may be issued pursuant to the share purchase plan will not exceed 200,000. During 2002 and 2001, no shares were issued.

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

8. Capital stock and contributed surplus (continued):

(c) Long-term incentive plan (continued):

In addition, the Board may from time to time grant options to purchase common shares of the Corporation to eligible executives. The options may be exercised at an amount equal to or greater than the average closing price of the common shares on the Toronto Stock Exchange on the last business day before the date of the grant. The options vest gradually over a period of five years and can be exercised at all times up to seven years after they have been granted. The maximum number of common shares that are issuable under the Plan following the exercise of options granted will not exceed 800,000.

The following table summarizes information about options outstanding at December 31, 2002:

Exercise price	Number of options outstanding	Weighted average remaining contractual life (in years)	Number of options exercisable
$ 10.00	60,750	3.19	36,450
6.00	180,750	4.28	72,300
4.15	252,318	5.32	57,131
4.96	50,000	5.67	10,000
	543,818		175,881

The number of stock options has varied as follows:

	2002		2001	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of the year	**557,615**	**$ 5.52**	287,400	$ 7.03
Granted	**–**	**–**	361,745	4.26
Cancelled	**(13,797)**	**6.51**	(91,530)	5.29
Balance, end of year	**543,818**	**$ 5.49**	557,615	$ 5.52
Share options that can be exercised at year-end	**175,881**	**$ 6.17**	62,695	$ 7.69

9. Cumulative translation adjustments:

	2002	2001
Balance, beginning of year	**$ 31,202**	$ 18,823
Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations	**(809)**	12,379
Goodwill impairment (note 1 (a))	**(10,101)**	–
Balance, end of year	**$ 20,292**	$ 31,202

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

10. Employee future benefits:

Information about the Corporation's defined benefit plans, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Accrued benefit obligations:				
Balance, beginning of year	**$ 80,827**	$ 72,223	**$ 28,156**	$ 25,370
Plan contributions	**730**	775	**236**	197
Current service cost	**2,944**	2,575	**53**	62
Interest cost	**5,939**	5,489	**2,190**	1,963
Amendments	**–**	5,383	**–**	81
Actuarial losses (gains)	**7,922**	(4,412)	**5,290**	1,321
Benefits paid	**(5,232)**	(5,568)	**(3,473)**	(2,450)
Foreign exchange rate changes and other	**(444)**	4,362	**(252)**	1,612
Accrued benefit obligations, end of year	**$ 92,686**	$ 80,827	**$ 32,200**	$ 28,156
Plan assets:				
Fair value, beginning of year	**$ 76,151**	$ 71,309	**$ –**	$ –
Amendments	**–**	5,231	**–**	–
Employee contributions	**730**	610	**236**	197
Employer contributions	**791**	677	**3,237**	2,253
Expenses	**–**	(146)	**–**	–
Actual return on plan assets	**(2,900)**	(188)	**–**	–
Benefits paid	**(5,232)**	(5,568)	**(3,473)**	(2,450)
Foreign exchange rate changes and other	**(691)**	4,226	**–**	–
Fair value, end of year	**$ 68,849**	$ 76,151	**$ –**	$ –
Funded status - plan deficit	**$ (23,837)**	$ (4,676)	**$ (32,200)**	$ (28,156)
Unamortized net actuarial losses	**27,669**	9,658	**6,844**	2,761
Unrecognized prior service cost	**(3,449)**	(3,783)	**–**	–
Unrecognized transition amount	**204**	244	**–**	–
Accrued employees' future benefit asset (liability)	**$ 587**	$ 1,443	**$ (25,356)**	$ (25,395)

Included in the above accrued benefit obligations and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Accrued benefit obligations	**$ 92,686**	$ 80,827	**$ 32,200**	$ 28,156
Fair value of plan assets	**68,849**	76,151	**–**	–
Funded status - plan deficit	**$ 23,837**	$ 4,676	**$ 32,200**	$ 28,156

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows as of December 31:

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Discount rate	**6.75 %**	7.50 %	**6.75 %**	7.50 %
Expected long-term rate of return on plan assets	**8.50 %**	9.00 %	**–**	–
Rate of compensation increase	**4.00 %**	4.00 %	**4.00 %**	4.00 %

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

10. Employee future benefits (continued):

For measurement purposes, a 9.0% annual rate of increase in covered health care was assumed for 2002 (9.5% for 2001). The rate was assumed to decrease gradually to 5.5% for 2010 and remain at that level thereafter.

The Corporation's net benefit plan expense is as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2002	2001	**2002**	2001
Current service cost	**$ 2,944**	$ 2,575	**$ 53**	$ 62
Interest cost	**5,939**	5,489	**2,190**	1,963
Expected return on plan assets	**(7,219)**	(6,785)	**–**	–
Other	**(47)**	194	**380**	–
Net benefit plan expense	**$ 1,617**	$ 1,473	**$ 2,623**	$ 2,025

11. Income taxes:

The effective income tax rates differ from the Canadian federal-provincial statutory income tax rates due principally to the following:

	2002		2001 (Restated - see note 1 (c))	
Income taxes calculated at statutory rates	**$ 7,743**	**36.12 %**	$ 3,521	38.50 %
Increase (decrease) resulting from:				
Manufacturing and processing deductions	**(465)**	**(2.17) %**	(312)	(3.56) %
Lower tax rates for US subsidiaries	**(2,120)**	**(9.89) %**	(4,402)	(50.14) %
Permanent differences	**(1,280)**	**(5.97) %**	420	4.78 %
Other	**1,609**	**7.50 %**	1,758	21.19 %
	$ 5,487	**25.59 %**	$ 985	10.77 %

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31 are as follows:

	2002	
	Current	**Long-term**
Future income tax assets:		
Provisions deductible for tax purposes in the future	**$ 9,654**	**$ 1,585**
Difference in net book value and tax basis of goodwill	**–**	**25,413**
Accrued employees' future benefits	**–**	**10,366**
Net operating loss carry forward	**–**	**9,131**
Other	**46**	**140**
	9,700	**46,635**
Future income tax liabilities:		
Difference in net book value and tax basis of capital assets	**–**	**(10,972)**
Use of LIFO for tax purposes	**(2,677)**	**–**
	$ (2,677)	**$ (10,972)**

	2001	
	Current	Long-term
Future income tax assets:		
Provisions deductible for tax purposes in the future	$ 8,807	$ 2,471
Accrued employees' future benefits	–	9,569
Net operating loss carry forwards	–	5,944
Other	–	380
	8,807	18,364
Future income tax liabilities:		
Difference in net book value and tax basis of capital assets	–	(12,967)
Difference in net book value and tax basis of goodwill	–	(7,841)
Use of LIFO for tax purposes	(7,129)	-
Other	(1,645)	-
	$ (8,774)	$ (20,808)

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

11. Income taxes (continued):

The Corporation has not recognized a future tax liability for the undistributed earnings of its subsidiaries established in the current and prior years because the Corporation currently does not expect those unremitted earnings to reverse and become taxable to the Corporation in the foreseeable future. A future tax liability will be recognized when the Corporation expects that it will recover these undistributed earnings in a taxable manner.

As at December 31, 2002, the Company had loss carryforwards for income tax purposes available to reduce future taxable income of $21.8 million, expiring from 2019 to 2021. The Company also has state net operating losses and tax credits of $45 million in the United States which expire from 2004 to 2022.

12. Earnings per share:

The following table presents the basic and diluted earnings per share calculation:

	2002	2001 (Restated - see note 1 (c))
Net earnings	$ 15,950	$ 8,160
Weighted average number of common shares outstanding	25,407,535	25,407,535
Dilutive effect of stock option plans	85,822	30,416
Weighted average number of dilutive common shares outstanding	25,493,357	25,437,951
Basic earnings per share	$ 0.63	$ 0.32
Diluted earnings per share	$ 0.63	$ 0.32

13. Supplemental cash flow information:

	2002	2001 (Restated - see note 1 (c))
Change in non-cash balances related to operations:		
Accounts receivable	$ (6,396)	$ 14,457
Income taxes payable	8,302	2,963
Inventories	(2,691)	11,513
Prepaid	33	2,694
Accounts payable and accrued liabilities	10,011	(14,267)
	$ 9,259	$ 17,360
Non-cash transactions related to investing activities:		
Unpaid capital asset acquisitions	$ 1,738	$ 2,110

14. Related party transactions:

Related party transactions were conducted in the normal course of the operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

The following table summarizes the Corporation's transactions for the year with related parties.

	2002	2001
Transactions for the year:		
Companies under common control:		
Purchases - inventory	$ 6,515	$ 5,842
Parent company:		
Purchases - inventory	9,419	9,460
Balance at year-end:		
Companies under common control:		
Accounts payable and accrued liabilities	4,111	2,258

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

15. Commitments:

The Corporation is committed under operating leases for premises which require future minimum annual rental payments as follows:

2003	$ 5,154
2004	2,913
2005	2,303
2006	1,694
2007	1,074
Thereafter	1,827
	$ 14,965

16. Contingencies:

(a) During 1999, the Corporation acquired the shares of Tarkett North America Holding Inc. (Tarkett NA). Per the Share Purchase Agreement the Corporation is indemnified by Tarkett Sommer AG and Tarkett Sommer AB for environmental conditions, all losses in relation to litigation, specified matters and product liability, personal injury or property damage relating to asbestos containing materials, existing or threatened prior to the acquisition date.

The Share Purchase Agreement also includes a contingent consideration clause based on future results of Tarkett NA until the year ending December 31, 2003. Under this clause, the Corporation may have to pay an additional consideration of up to $40 million which will be recorded as an increase to goodwill. The amount of this contingent consideration, if any, is not determinable at this time and has not, therefore, been included in the allocation of the purchase price.

(b) One of the Corporation's subsidiaries has been named co-defendant in asbestos-related lawsuits involving personal injuries. It is the opinion of management, based on the advice and information provided by its legal counsel, that final determination of these cases will not materially affect the Corporation's consolidated financial position or results of operations.

(c) Canada Customs and Revenue Agency ("CCRA") has advised the Corporation that it might propose to disallow substantial amounts which have been deducted for income tax purposes over the past years. In the opinion of management, this possible assessment is without substantial merit. It is not possible at this time to make an estimate of the amount, if any, of income taxes that may result.

17. Financial instruments:

(a) Fair values:

The methods and assumptions used to estimate the fair value of each class of financial instrument for which it is practicable to estimate a value are as follows:

(i) Short-term financial assets and liabilities:

The carrying amounts of these assets and liabilities, which comprise cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are a reasonable estimate of the fair values because of the short maturity of those instruments.

(ii) Long-term debt:

The carrying amount of the Corporation's floating rate long-term debt approximates its fair value because of its floating rate nature and because the debt, denominated in US dollars, is translated using the reporting date exchange rate.

(ii) Long-term debt (continued):

The fair value of the loans having a fixed interest rate is based on estimated future cash flows discounted using the current market rate for debt of the same remaining maturities, as advised by the Corporation's bankers. The fair value of long-term debt as at December 31, 2002 is $79,150 (2001 - $143,024) compared to a carrying amount of $78,563 (2001 - $142,277).

(iii) The fair value of the interest rate swap described in note 7 is calculated using market rates prevailing at the balance sheet date obtained from the Corporation's financial institution and represents the estimated amount that the Corporation would pay to settle the agreement at December 31, 2002. The fair value of the interest rate swap at December 31, 2002 would result in a loss of US$0.8 million (2001 - loss of US$1.36 million).

(b) Credit risk:

The Corporation sells products to customers primarily in Canada and in the United States. Concentration of credit risk with respect to trade receivables is limited due to a significant number of customers comprising the Corporation's customer base and their distribution across different geographic areas. As at December 31, 2002, one customer accounted for 30.4% (2001 - 18.4%) of total trade receivables and 9.6% (2001 - 5.5.%) of total sales. The business of this customer is primarily included in the hardwood floor covering products sector.

Years ended December 31, 2002 and 2001 (In thousands of dollars, except per share amounts)

18. Segment disclosures:

Effective January 1, 2002, the Corporation changed its organizational structure into three defined reportable segments: the Residential – resilient floor covering products, which produces the Domco and Tarkett lines of resilient sheet flooring; the Commercial – resilient floor covering products, which manufactures and distributes the Corporation's Azrock, Tarkett and Nafco tile products, and the Tarkett-Sommer speciality products and, finally, the Hardwood floor covering products which produce a range of prefinished and unfinished solid and engineered plank and strip products. The accounting policies of the segments are the same as those described in note 2. Intersegment revenues are based on terms similar to those with third parties. The 2001 figures were restated to reflect the change in the organizational structure.

	Residential resilient floor covering products		Commercial resilient floor covering products		Hardwood floor covering products		Total	
	2002	2001 restated	**2002**	2001 restated	**2002**	2001 restated	**2002**	2001 restated
External revenues	**$ 217,621**	$ 219,503	**$ 246,706**	$ 246,542	**$ 202,891**	$ 183,576	**$ 667,218**	$ 649,621
Intersegment revenues	**–**	–	**9,780**	23,256	**4,472**	3,613	**14,252**	26,869
Revenues	**$ 217,621**	$ 219,503	**$ 256,486**	$ 269,798	**$ 207,363**	$ 187,189	**$ 681,470**	$ 676,490
Depreciation	**$ 7,183**	$ 6,068	**$ 7,789**	$ 8,900	**$ 6,579**	$ 7,475	**$ 21,551**	$ 22,443
Segment income (loss) from operations	**$ 13,213**	$ 7,639	**$ 1,670**	$ (295)	**$ 13,966**	$ 21,329	**$ 28,849**	$ 28,673
Non-segment expenses:								
Interest on long-term debt							**6,167**	10,525
Other interest income							**(227)**	(1,689)
Amortization of goodwill							**–**	7,555
Depreciation							**765**	1,154
Other							**707**	1,983
Income before provision for income taxes							**$ 21,437**	$ 9,145
Identifiable assets (excluding goodwill)	**$ 107,584**	$ 103,909	**$ 131,567**	$ 127,701	**$ 131,292**	$ 109,331	**$ 370,443**	$ 340,941
Goodwill	**–**	111,043	**–**	985	**21,551**	21,758	**21,551**	133,786
Elimination					**(219)**	(541)	**(219)**	(541)
Non-segment assets:								
Other							**80,612**	123,610
Total assets							**$ 472,387**	$ 597,796

Geographic information:

	Revenues		Property, plant and equipment and goodwill	
	2002	2001	**2002**	2001
Canada	**$ 98,954**	$ 95,540	**$ 41,976**	$ 44,090
United States	**564,983**	550,225	**135,637**	252,705
Other	**3,281**	3,856	**–**	–
	$ 667,218	$ 649,621	**$ 177,613**	$ 296,795

19. Comparative figures:

Certain figures, previously reported on for 2001, have been reclassified to conform with the financial statement presentation adopted in the current year.

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Financière Harricana Inc.

Marc Assa (3)
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Domco Tarkett Inc.
Chief Executive Officer
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Senior Management

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and Chief Executive Officer

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President
Residential Division

James Morando
President
Hardwood Division

Jacques Bénétreau
Chief Financial Officer,
Senior Vice President
and Treasurer

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Annual Information Form
Shareholders may obtain a copy of the Annual Information Form by writing to the Secretary at the Head Office in Farnham:

Stéphanie Couture
Director Legal Department and Secretary
Telephone: (450) 293-8137
stephanie.couture@domcotarkett.com

Si vous désirez recevoir ce rapport en français, veuillez adresser votre demande à la Secrétaire de la Société au siège social à Farnham.

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held at 10:00 a.m. on May 29, 2003
at the Omni Mont-Royal Hotel
Pierre de Coubertin Room
1050 Sherbrooke Street West
Montréal, Québec

DOMCO TARKETT INC.

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